

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 NEA-10 ISO-00 CAB-02 CIAE-00 COME-00

DODE-00 DOTE-00 INR-07 NSAE-00 CIEP-01 FAA-00 L-03

SS-15 NSC-05 SP-02 SIL-01 LAB-04 EUR-12 PA-01 PRS-01

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R 041144Z AUG 76

FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC 1677

INFO AMCONSUL HONG KONG

AMEMBASSY NEW DELHI

AMEMBASSY VIENTIANE

AMEMBASSY RANGOON

AMEMBASSY KUALA LUMPUR

AMEMBASSY SINGAPORE

AMEMBASSY MANILA

AMEMBASSY JAKARTA

AMEMBASSY DACCA

CINCPAC HONOLULU HI

C O N F I D E N T I A L SECTION 1 OF 2 BANGKOK 21994

EO 11652: GDS

TAGS: EAIR, ELAB, TH, PINT

SUBJ: SUMMARY OF THE THAI INTERNATIONAL-AIR SIAM DISPUTE

REF: A) BANGKOK 21483, B) BANGKOK 21722, C) BANGKOK 21855,
D) BANGKOK 21879

SUMMARY: THAI INTERNATIONAL HAS WON THE LATEST ROUND IN ITS FIGHT WITH AIR SIAM, BUT THE LATTER CANNOT YET BE COUNTED OUT. AS A RESULT OF THE ONE-DAY STOPPAGE OF OPERATIONS AT BANGKOK'S DON MUANG AIRPORT, THE CABINET SHELVED A MINISTRY OF COMMUNICATION'S PROPOSAL FOR ROUTE RE-STRUCTURING AND EVENTUAL MERGER AND LIMITED THE MINISTER OF COMMUNICATION'S FREEDOM OF ACTION IN AIR POLICY MATTERS. END SUMMARY.

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1. THE THAI INTERNATIONAL STRIKE AGAINST THE MINISTRY OF COMMUNICATIONS AND AIR SIAM, WHICH HAD THE EFFECT OF COMPLETELY CLOSING DOWN BANGKOK'S DON MUANG AIRPORT FOR A DAY, IS ONLY THE LATEST PHASE OF THE ONGOING STRUGGLE BETWEEN THESE TWO AIRLINES. CONSIDERABLE CONTROVERSY SURROUNDS THIS STRIKE BY THE EMPLOYEES OF A GOVERNMENT-OWNED COMPANY ENGAGING IN A WORK STOPPAGE INSTIGATED AND ORGANIZED BY THE TOP MANAGEMENT OF THEIR OWN COMPANY. THAI INTERNATIONAL, 70 PERCENT OWNED BY THE GOVERNMENT DOMESTIC AIR TRANSPORT COMPANY, THAI AIRWAYS CORPORATION (TAC), AND 30 PERCENT OWNED BY SCANDINAVIAN AIR SYSTEMS, IS THAILAND'S LONG-TIME FLAG AIRLINE WITH AN EXTENSIVE ROUTE SYSTEM THROUGHOUT EAST ASIA AND ALSO ROUTES TO SOUTH ASIA AND EUROPE. ITS CHALLENGER, AIR SIAM, IS A PRIVATELY-OWNED COMPANY WHICH HAS MANAGED TO EXIST FOR THE PAST FEW YEARS AS THE RESULT OF POLITICAL WIRE PULLING, EXTENSIVE FARE CUTTING AND FINANCIAL SLIGHT OF HAND.

2. AIR SIAM WAS ORIGINALLY GIVEN ITS AIR LICENSE THROUGH THE INTERVENTION OF THEN PRIME MINISTER THANOM IN 1970 AGAINST THE RECOMMENDATIONS OF THE MINISTRY OF COMMUNICATIONS. AFTER INITIAL ATTEMPTS AT COMMERCIAL AVIATION FAILED, IT WAS RE-ORGANIZED IN 1972 WITH A GROUP OF THAI BUSINESSMEN REPORTEDLY ASSOCIATED WITH THE LATE GENERAL KRIT SIWARA OBTAINING 55 PERCENT OF AIR SIAM'S SHARES.

3. AIR SIAM HAS HAD CASH FLOW PROBLEMS AND HAS TEETERED ON THE BRINK OF BANKRUPTCY SINCE ITS INCEPTION AS AN ACTIVE AIRLINE IN 1970. ITS PROBLEMS WERE COMPOUNDED IN THE SUMMER OF 1975 WHEN THE BRITISH, CONCERNED ABOUT TICKET DISCOUNTING BY AIR SIAM ON THE BANGKOK-HONG KONG SECTOR TO THE DETRIMENT OF CATHAY PACIFIC FORCED THE RTG TO REDUCE SHARPLY THAI INTER AND AIR SIAM'S SCHEDULED CAPACITY TO AND THROUGH HONG KONG. AIR SIAM WAS THE WORST HIT AS THE BANGKOK-HONG KONG-TOKYO SECTOR WAS (AND IS) BY FAR THE MOST PROFITABLE LEG OF ITS ONLY REGULAR ROUTE, BANGKOK-LOS ANGELES.

4. IN THE WAKE OF BRITISH REDUCTION OF THAI CARRIER TRAFFIC ON THE HONG KONG-TOKYO SECTOR EFFECTIVE JANUARY 1, 1976, AIR SIAM PROPOSED TO THE MINISTRY OF COMMUNICATIONS THAT THE THAI ROUTE NETWORK BE RESTRUCTURED IN AIR SIAM'S FAVOR AND TO THE DETRIMENT

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OF THAI INTER. AIR SIAM'S PRESIDENT AND MANAGING DIRECTOR, WIRACHAI WANNUKUN, ANNOUNCED THAT IF THAI ROUTES WERE NOT RESTRUCTURED, OR THE BRITISH DID NOT RESCIND THEIR ORDER REDUCING THAI TRAFFIC THROUGH HONG KONG, HIS AIRLINE WOULD HAVE TO CLOSE DOWN. IN NORMAL CIRCUMSTANCES, ANY PROPOSAL TO ENRICH AIR SIAM AT THE EXPENSE OF THAI INTER WOULD HAVE DIED ABORNING. HOWEVER, ACCORDING TO AN AMERICAN SOURCE CLOSE TO BOTH AIRLINES, SEVERAL THAI BANKS TO WHICH AIR SIAM WAS DEEPLY INDEBTED FEARED THAT

AIR SIAM WOULD GO UNDER AS A RESULT OF THE BRITISH ACTION. THE SOURCE CONTINUED THAT THESE BANKS HAD INTERVENED WITH THE RTG IN SUPPORT OF ROUTE RESTRUCTURING PROPOSALS AS A MEANS BY WHICH THEY COULD PERHAPS KEEP AIR SIAM ALOFT, AND THUS PROTECT THEIR LOANS. TWO CABINET FIGURES WHO WERE KEY SUPPORTERS OF AIR SIAM'S PROPOSALS WERE CHATCHAI CHUNHAWAN, THEN MINISTER OF FOREIGN AFFAIRS, NOW MINISTER OF INTERIOR, AND BUNCHU ROTCHANASATHIAN, THEN MINISTER OF FINANCE, NOW OPPOSITION MP.

5. CONTINUED NEGOTIATIONS WITH THE BRITISH RESULTED IN AN INCREASE IN WEEKLY SEATING CAPACITY ALLOWED TO THAI AIRLINES ON THE BANGKOK-HONG KONG AND HONG KONG-TOKYO SECTORS. THIS NEW ALLOCATION OF SEATS WAS ARRIVED AT IN LATE FEBRUARY 1976. AIR SIAM, AS A CONSEQUENCE, GAINED ENOUGH EXTRA SEATS TO KEEP FROM GOING INTO BANKRUPTCY ENTIRELY. BUT THE ROUTING DISPUTE COULD NOT BE RESOLVED, EVEN THOUGH REPORTS TO THE CONTRARY APPEARED IN THE MEDIA FROM TIME TO TIME BETWEEN FEBRUARY AND THE CURRENT BATTLE ROYAL.

6. THE CASUS BELLI OF THE STRIKE AT DON MUANG WAS THE MINISTRY OF COMMUNICATIONS' (MOC) SURPRISE ANNOUNCEMENT ON JULY 29 OF A FIVE-POINT PLAN WHICH INCLUDED AN EXCHANGE OF DIRECTORS BETWEEN THE TWO AIRLINES, SOME ROUTE RESTRUCTURING, AND THE ACQUISITION BY EACH AIRLINE OF SOME OF THE OTHER'S STOCK (REF A). THAI INTER AND ITS ALLIES WERE STUNNED. THE LOWER HOUSE COMMUNICATIONS COMMITTEE SAID IT OPPOSED THE MOC'S PLAN BECAUSE, INTER ALIA, (1) IT WAS PROPOSED THAT AIR SIAM FLY TO COLOMBO, WHICH THAI INTER ALREADY SERVICES; (2) THE CABINET HAD RULED THAT AIR SIAM SHOULD GET NO NEW ROUTES WHILE AN INVESTIGATION OF ITS FINANCIAL STANDING IS STILL PENDING; (3) AIR SIAM WOULD ACQUIRE 15 PERCENT OF THAI INTER'S STOCK AT BOOK VALUE, WHICH IS CONSIDERABLY LESS THAN ITS MARKET VALUE, WHILE THAI INTER WOULD HAVE TO BUY 15 PERCENT OF AIR SIAM'S STOCK AT FACE VALUE WHEN ITS MARKET VALUE IS NEXT
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7. INSTRUMENTAL IN PUSHING THROUGH THE PLAN WAS THE MINISTER OF COMMUNICATIONS, THAWIT KLINPRATHUM. THAWIT HAS A VERY UNSAVORY REPUTATION. HE HAD LONG ASSOCIATION WITH THE LATE GENERAL KRIT SIWARA AND MADE THE BEGINNINGS OF HIS FORTUNE IN PROVIDING TRUCKING SERVICES DURING THE VIETNAM WAR. HE WAS THE FIRST LEADER OF THE KRIT-BACKED SOCIAL JUSTICE PARTY AND WAS MINISTER OF AGRICULTURE IN THE KHUKRIT PRAMOT GOVERNMENT. HE WAS OUSTED BY KHUKRIT FOR SABOTAGING THE RICE PRICE GUARANTEE PROGRAM, AMONG OTHER THINGS. IN PREPARATION FOR THE 1976 ELECTIONS, THAWIT GAVE WAY TO THAWI CHUNLASAP AS LEADER OF THE SOCIAL JUSTICE PARTY AND AFTER THE FORMATION OF THE DEMOCRAT-LED COALITION GOVERNMENT, RETURNED TO THE CABINET AS COMMUNICATIONS MINISTER. ONE OF HIS FIRST ACTIONS AS MINISTER OF COMMUNICATIONS WAS TO FIRE THE MINISTRY'S SENIOR CIVIL SERVANT, DR. SIRILAK CHANTHARANGSU, WHO HAD A REPUTATION FOR CONFIDENTIAL

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HONESTY AND ALSO FOR OPPOSITION TO SCHEMES FOR KEEPING AIR SIAM ALIVE. SIRILAK WAS REPLACED AS UNDER SECRETARY BY KAN NAKHAMADI. A FORMER HIGH OFFICIAL OF AIR SIAM TOLD THE ADCM THAT BOTH THAWIT AND KAN HAD CLOSE RELATIONSHIPS WITH THE OWNERS OF AIR SIAM. (INCIDENTAL TO THE CURRENT DISPUTE IS THE PENDING PURCHASE OF NEW AIRCRAFT TY THAI AIRWAYS. THE AMERICAN AIRCRAFT MANUFACTUERE INVOLVED HAS CONFIDED TO THE EMBASSY THAT A BRIBE WAS SOLICITED BY OFFICIALS REPRESENTING THAWIT. THE U.S. COMPANY REFUSED AND IS

AFRAID IT WILL NOT GET THE CONTRACT AS LONG AS THAWIT IS MINISTER OF COMMUNICATIONS).

8. THE MOC INITIATIVE HAD THE CONCURRENCE OF AIR SIAM--AND MOST PROBABLY ITS ACTIVE PARTICIPATION IN THE FORMULATION OF THE PLAN, SINCE IT WAS SO WEIGHTED IN AIR SIAM'S FAVOR. ON JULY 30 COMMUNICATIONS MINISTER THAWIT, THAI INTER'S MANAGING DIRECTOR AIR MARSHALL CHU SUTTHICHOT, AIR SIAM'S WIRACHAI AND TAC'S MANAGING DIRECTOR AIR VICE MARSHAL THAVEEP BUNNAG FLEW TO MANILA OSTENSIBLY ON OTHER BUSINESS, IN WHAT APPEARS TO HAVE BEEN A LAST-DITCH COMPROMISE ATTEMPT. IT FAILED, AND ON AUGUST 2 THAI INTER DECIDED TO TAKE DRASTIC ACTION. SEVEN DEMANDS WERE SUBMITTED BY TAC AND THAI INTER TO THE PM (SEE REF C, PARA 2), AND A STRIKE OF ALL TAC/THAI INTER EMPLOYEES AT DON MUANG WAS CALLED FOR AUGUST 3. THE DEMANDS INCLUDED THE OUSTER OF THAWIT AND THE REVOCATION OF AIR SIAM'S LICENSE. (REF B).

9. THE STRIKE BEGAN ON AUGUST 3 AT ABOUT 0900 AND WAS CALLED OFF DURING THE EVENING AFTER A DAY OF NEGOTIATIONS BETWEEN TAC/THAI INTER EXECUTIVES AND RTG OFFICIALS. ACCORDING TO THE AUGUST 4 QUOTE BANGKOK POST, UNQUOTE DEPUTY PM PRAMAN ADIREKSAN, HEAD OF THE FOUR-MAN RTG NEGOTIATING TEAM, SAID THAT THAI INTER AND TAC HAD AGREED TO DROP ALL SEVEN DEMANDS. HOWEVER, WHEN EMBOFF QUERIED TAC MANAGING DIRECTOR THAVEEP ON THIS POINT THE SAME MORNING, HE EMPHATICALLY DENIED THE QUOTE BANGKOK POST UNQUOTE REPORT. HE SAID THAI INTER AND TAC HAD AGREED NOT TO PRESS FOR RTG ACTION ON THE FIRST DEMAND (SACKING OF COMMUNICATIONS MINISTER THAWIT AND UNDER-SECRETARY KAN NAKHAMADI) FOR THE TIME BEING. AS FOR THE OTHER SIX DEMANDS, THAVEEP SAID THE TWO AIRLINES AGREED TO GIVE THE RTG THIRTY DAYS TO STUDY AND ACT ON THEM. HE ADDED THAT THAWIT'S ORDER LAST WEEK, REMOVING RTAF COMMANDER-IN-CHIEF AND CHAIRMAN OF THAI INTER'S BOARD OF DIRECTORS, AIR CHIEF MARSHAL KAMON DECHATUNGKA, FROM THE BOARD OF TAC WAS ILLEGAL. TAC IS A COMPANY
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INCORPORATED UNDER THE MINISTRY OF COMMERCE, THAVEEP SAID, AND ONLY THE BOARD ITSELF CAN REMOVE ONE OF ITS MEMBERS. THE MINISTER OF COMMUNICATIONS HAS NO AUTHORITY IN THE MATTER. HE WAS VERY PLEASED THAT PM SENI HAD YESTERDAY ORDERED THAWIT TO RESCIND HIS DIRECTIVE.

10. THE AFTERNOON QUOTE BANGKOK WORLD UNQUOTE NEWSPAPER REPORTED ON AUGUST 4 THAT THE RTG HAS DECIDED TO REJECT THE MOC'S FIVE-POINT PLAN AND TO TRIM DOWN THAWIT'S POWER IN MAKING FUTURE DECISIONS CONCERNING AIR POLICY, OSTENSIBLY QUOTE AS AN ATTEMPT TO AVERT ANY FUTURE STRIKE AT DON MUANG AIRPORT. UNQUOTE THE MINISTER ATTACHED TO THE PM'S OFFICE, SURIN MATSADIT, WAS REPORTED TO HAVE SAID THAT THE CABINET AT ITS AUGUST 3 MEETING ADOPTED A RESOLUTION THAT THAWIT MUST NOTIFY THE CABINET IN ADVANCE IF HE SHOULD MAKE ANY FUTURE DECISIONS CONCERNING AVIATION POLICY IN

THAILAND. SURIN ALSO TOLD THE PRESS ESSENTIALLY WHAT TAC MANAGING DIRECTOR HAD PREVIOUSLY INFORMED EMBOFF: THE PM HAD REQUESTED THAT THAWIT DROP HIS PLAN TO REMOVE AIR CHIEF MARSHAL KAMON AND TWO OTHER RANKING RTAF PERSONNEL FROM EXECUTIVE POSTS AT TAC AND THAI INTER. THAWIT HAD ACQUIESCED IN THIS QUOTE REQUEST. UNQUOTE COMMENT: THE THAI INTERNATIONAL-AIR SIAM DISPUTE IS STILL FAR FROM OVER. THE SANYA THAMMASAK GOVERNMENT DECIDED THAT THE TWO AIRLINES SHOULD BE MERGED BEFORE THE END OF 1977 BUT THAI INTER HAS BEEN FIGHTING ANY MOVES IN THIS DIRECTION EVERY STEP OF THE WAY. AIR SIAM, WHOSE DEMISE HAS BEEN OFTEN PREDICTED SOMEHOW MANAGES TO SURVIVE. POLITICAL CHEWING GUM RATHER THAN ECONOMIC NUTS AND BOLTS KEEPS AIR SIAM STUCK TOGETHER. HOW LONG THE FORMER CAN RESIST THE PRY BARS OF THAI INTER'S POLITICAL ALLIES REMAINS TO BE SEEN. HOWEVER, THAI INTER'S MANAGEMENT, WHICH HAS SHOWN A LOT OF MUSCLE, WILL NOT STAND IDLY BY TO AWAIT THE NEXT MERGER PROPOSAL.

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Message Attributes

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